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C O N F I D E N T I A L SECTION 01 OF 03 SANTO DOMINGO 005302

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STATE FOR WHA - SHAPIRO, URS, MCISAAC; EB FOR DONNELLY,
MANOGUE, VOLK, YOUTH, HONAN, AARON, FRISBIE; E FOR CADE;
TREASURY FOR OASIA - LEE, TOLOUI, AND LAMONICA; WHITE HOUSE
FOR USTR - MALITO, VARGO; USTR FOR ALLGEIER; NSC FOR TOM
SHANNON

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TAGS: [ETRD](#) [PREL](#) [BEXP](#) [PGOV](#) [EFIN](#) [DR](#)

SUBJECT: FORMER DOMINICAN PRESIDENT OPTIMISTIC THAT SENATE
WILL PASS FISCAL REFORM WITHOUT HFCS-RELATED TAX

REF: A. (C) SANTO DOMINGO 05242

- [1](#)B. (U) SANTO DOMINGO 05156
- [1](#)C. (C) SANTO DOMINGO 05080
- [1](#)D. (C) SANTO DOMINGO 05024

Classified By: AMBASSADOR HANS H. HERTELL FOR REASON: 1.4 (A) AND (D).

[1](#)1. (C) SUMMARY AND COMMENT. Former Dominican President Hipolito Mejia told Ambassador Hertell September 22 that he expects that the effort will succeed to remove from the fiscal reform bill now in the Senate the proposed 25 percent tax on beverages that use high-fructose corn syrup (HFCS). It may take a few more days. Mejia has been lending, and will continue to lend, his weight and political clout from behind the scenes to resolve this issue. Mejia,s clear support, plus that of President Fernandez, Monsignor Agripino Nunez Collado and other heavyweights, including major business organizations, brings new confidence that the vote will come out the right way. End Summary and Comment.

[1](#)2. (C) At short notice, former President Mejia agreed to meet with Ambassador Hertell September 22 to discuss the problematic 25 percent tax on drinks made with HFCS included in the fiscal reform legislation currently up for a second vote in the Senate. As reported in (Ref C), a first reading of the draft legislation, which includes a 25 percent tax on beverages made with HFCS, was approved last week in a rush vote by the opposition PRD-controlled Senate. This meeting followed a heated week of diplomacy and advocacy to remove the HFCS-related tax from the fiscal reform legislation needed for the Dominican Republic to resume its IMF program, and then pass the fiscal reform package (See Reftels.)

Background: Ambassador,s and Fernandez, September 20
Meetings with Senators

[1](#)3. (C) On September 20, the Ambassador met with Senate President Andres Bautista, PRD whip and spokesman Senator Anibal Garcia, and eight other senators (including several from sugar provinces) to review the US position on the question removing the HFCS-related tax from the fiscal reform bill. The Ambassador unequivocally said that the Senate should not allow the HFCS-related tax to be included in a tax reform law, and cautioned that without senators' strong leadership, our two countries would not realize the benefits of DR-CAFTA. He conveyed Washington views that an attempt to remove the HFCS-related tax after first passing the fiscal reform bill would be unworkable. Though the senators present complained that President Fernandez,s own position on the issue was not entirely clear, they agreed to work to remove the tax, pass the modified bill in the Senate, and then send it back to the Chamber of Deputies for, hopefully, a quick vote along the same lines.

[1](#)4. (C) In the afternoon of the same day, President Fernandez asked the Ambassador to join his own meeting with the Senate leadership (Bautista and Garcia). The Ambassador hand-delivered USTR Zoellick,s letter to Fernandez and reviewed its contents. President Fernandez told the senators that without DR-CAFTA, the Dominican Republic would be left out of the region,s largest free trade group, while Mexico and the Central Americans would have advantaged access to the US market. Fernandez noted that the fiscal reform package was a very high priority for the GODR, but it could not be achieved at the expense of DR-CAFTA. He reiterated that a week earlier, he himself had instructed his Technical Secretary, Temistocles Montas, to send the Senate a letter

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asking it to remove the HFCS-related tax (which Montas had done). Fernandez, speaking directly to the senators, suggested that once the fiscal reform, minus the HFCS-related tax, was passed, he could support private sector complaints with a GODR-launched complaint against the United States at the WTO. Bautista agreed that this might be a good way to proceed. The Ambassador said the US position was that we should be partners in the WTO (in ongoing multilateral negotiations). Fernandez and the senators agreed to try to

get the support of the Senate leaders of all three major political parties, in order to set an example for the Chamber of Deputies, where the bill would be very controversial once again. They agreed to try to move the legislation as quickly as possible.

Politicking

15. (C) The senators spent the following day, September 21, trying to broker this arrangement. In the meantime, the Ambassador, who then traveled to Santiago, received public support from all the major business organizations of this trade-oriented city for DR-CAFTA (and for removing the HFCS-related tax from the fiscal reform bill). These organizations also took out full-page ads in the country's leading dailies.

16. (C) As of the morning of September 22, there were 14 senators ready to vote to remove the tax and pass a modified fiscal reform bill, but 17 senators who wanted to pass the bill as is. (One senator was out of the country.) Note: These numbers have changed slightly throughout the day and could change again. The PRD opposition reportedly saw an opportunity to win concessions from the PLD on a host of other issues, which further complicated the work. Faced with this situation, the Ambassador called former President Mejia, who arrived at the Ambassador's residence a scant 10 minutes later.

The Conversation with Former President Mejia

17. (C) The Ambassador reiterated that the US position remained firm, that the Dominican Republic would lose its participation in DR-CAFTA if the fiscal reform bill passed with the HFCS-related tax in it. Former president Mejia noted that the United States had been perfectly clear; "you have been clearer than a diplomat," he joked. Mejia was confident that the vote would come out right. "I didn't want to get out in front, but I've got control in the Senate and can get enough votes." It would probably take a few days, he said. He calls Foreign Minister Morales Troncoso's comments on behalf of sugar "unfortunate" and a reflection of the foreign minister's own personal opinion. He offered to get together with the Ambassador again on Monday, September 17.

Other Conversations

18. (C) The Ambassador and Emboffs have had a series of other conversations during the past several days, including with Monsignor Agripino Nunez Collado, Senator Alejandro Santos (PRD and favorable to the US position), former chief Dominican negotiator and trade secretary Sonia Guzman, Guzman's assistant Hugo Rivera, and others. All of these contacts have been (and continue to be) active, either out in front or behind the scenes, and they come to the task representing different constituencies.

Comment

19. (C) At this stage, given the participation of several real heavyweights in Dominican politics and President Fernandez's clear language with the Senate leadership, we are now guardedly optimistic of winning this titanic struggle, though not as quickly as we had hoped. We have confidence in Mejia's ability to deliver the additional Senate votes needed. This is not to say that the battle will be over in the Senate; the likelihood is for a renewed battle as well in the Chamber of Deputies (where, we have been told, we can count on the support of Chamber of Deputies president Alfredo Pacheco, of the PRD).

110. (C) This confrontation between Fernandez and the Congress after just one month in office has provided the first major test of the administration. In the executive branch, we have seen a lack of discipline about the government's policy, e.g., in the public statement made by Foreign Minister Morales Troncoso against his own president's position. We suspect the Foreign Minister was motivated by his own personal loyalties from a long association with the largest sugar interest in the country. In the legislative branch, Fernandez has proved to be able to sway the vote of his own PLD's sole senator, but seemingly hesitant in the face of PRD and PRSC opposition. The best outcome would be rapid passage of the fiscal reform -- minus the HFCS-related tax -- and a resulting new respect for Fernandez, presidency. Time and continued efforts by the Embassy, Washington, and the GODR will tell. The outcome could affect Fernandez's ability to enact his proposals into law between now and the 2006 legislative elections, when his ruling PLD will have its first chance to tilt the balance of forces in Congress.

111. (C) Events like this are opportunities to strengthen democracy. In our view, former President Mejia, Senate President Bautista, and political mediator Monsignor Nunez have stepped up to the leadership plate. They are heavy

hitters, and there are several innings left in the game.

[11.](#)
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